



PANTS ON FIRE

BY OLIVIA MELLAN

It's not always easy, but the truth can set you free

THE NEWS IS FULL OF SENIOR GOVERNMENT OFFICIALS INVOLVED IN SEX SCANDALS, highly paid CEOs charged with options backdating, reputable writers and journalists caught in literary fraud and plagiarism, and well-known attorneys convicted of racketeering. Why does there seem to be so much more lying, cheating, and stealing going on lately? Is our society in the midst of a moral meltdown?

The issue of honesty in independent advisory practices has risen to the surface with the recent hullaballoo about whether RIAs should be regulated more strictly. As Mark Tibergien (now managing director of Pershing Advisor Solutions in Jersey City) mused to me lately, “Just because someone is a fiduciary, does that make them operate with integrity?”

Most of the advisors I've encountered through the years try their utmost to practice with honesty and integrity. Nonetheless, we have all been guilty at one time or another of “little white lies” to spare people's feelings, or sins of omission to protect our own self-interest.

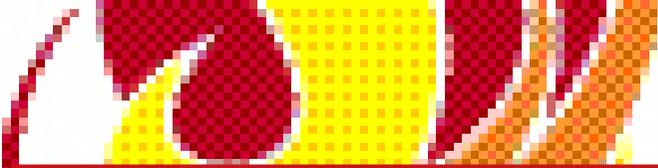
The majority of your clients, I wager, keep money secrets (and other secrets that may be relevant to your work together) from you, from their spouses, and sometimes from themselves. Because a lack of truthfulness can sabotage their financial plans, as well as their relationships with each other and with you, it's worth examining why people lie and how you can foster more honesty in your practice.

LYING IS ALL AROUND US

Gail Saltz, a psychiatrist and author of *Anatomy of a Secret Life: The Psychology of Living a Lie* (Broadway, 2006), notes that children usually start lying to manipulate their environment at around age 4 or 5, when they gain an awareness of the use and power of language. They may lie to get out of a sticky situation, to avoid being punished for some transgression, or to get what they want. If you had siblings, I'm sure you remember their duplicity in pursuit of self-serving ends. It may be more difficult to recall, but you probably did the same.

“I believe that lying and cheating has its roots in low self-esteem, often originating in some type of earlier trauma or events experienced as trauma,” says Larry Moskat, a former psychotherapist turned financial planner in Scottsdale, Arizona. “When we are very unhappy being who we perceive we are, we tend to ‘become someone else.’”

Neglect or abuse can damage people's self-esteem to the point where they manufacture new “truths” about themselves, remaking themselves as someone different. In short, lying is essentially about hating who we are and what we think people believe about us. After a while lying can become an entrenched way of life for some people, allowing them to slip into another, more palatable “reality.”



WHAT WE SAY AND WHAT WE DO

With some help from *Wikipedia*, I've identified 12 kinds of lies. Eight of them are on the milder, more innocuous side:

Bluffing—Deception in the context of a game, not usually seen as immoral.

Emergency lie—A white lie used when the truth might harm a third party, such as a neighbor lying to an angry abusive husband about the whereabouts of his wife.

Exaggerating—Magnifying or embroidering on a truth until it becomes false. ("When I attended Yale, I got straight A's and roomed with Hillary Clinton.")

Jocose lie—A lie that everyone knows is meant in jest.

Lie to children—For instance, "The stork brought you."

Lie by omission—Deliberately not speaking up about the truth in order to leave others with a misconception.

Misleading—Saying something that isn't an outright lie, but has as its purpose making another person believe an untruth.

White lie—A small lie offering some benefit to the liar, hearer, or both that would cause no discord if uncovered.

The remaining four kinds of lying are usually considered more reprehensible:

Bald-faced lie—Everyone concerned knows it's a lie.

Hypocrisy—Practicing one thing but professing the opposite.

Noble lie—A lie that offers some benefit to the liar, perhaps helps maintain order in society, and would cause discord if uncovered—often the refuge of politicians and other scoundrels.

Perjury—Lying under oath or in a court of law.

In surveys about lying, we Americans ourselves tend to be hypocritical. For example, the Pew Research Center found in a 2006 study that 43% of interviewees believed lying to spare someone's feelings was morally wrong. I can't believe that four out of 10 people in this country think it's immoral to refrain from blurting out, "Honey, that hairdo makes you look like Bozo the Clown."

In the same Pew study, 79% of respondents said that failing to fully report one's income on a tax return was morally wrong. Yet according to the IRS, individual taxpayers failed to include nearly \$200 billion on their 2001 returns (the most recent year analyzed). I believe many of us have fudged the numbers when filing taxes, or at least know others who have done so. Yet we have tremendous moral judgments about this behavior.

Ted Klontz, PhD, a psychologist and president of Klontz Coaching and Consulting in Cumberland Furnace, Tennessee, believes that "absolute truth is actually the most taboo subject matter in our culture." In his view, lying is a behavior we learn because it is rewarded most of the time, unlike telling the truth.

Klontz agrees that denial runs rampant in our psyches. "We like to pretend that lying isn't as pervasive as it really is," he notes, "but we really expect everybody to lie, at least up to a point (that point being rather arbitrary). It serves as a social lubricant. We teach our children that it should be done, and how to do it."

We all want to think of ourselves as moral, honest, and good people. And in general, most of us are. As one of our favorite national myths about George Washington and the cherry tree illustrates, we also want to think of our leaders as honest and ethical people. In fact, we often expect them to have a more

How Honest Are You?

Mark Tibergien (CEO of Pershing Advisor Solutions and a fellow *IA* columnist) has devised a terrific list of questions you can ask yourself to clarify just how honest and open you are. The answers may be especially informative if you've persuaded yourself that you're always truthful and transparent with clients and colleagues:

1. Have you ever told a client that you didn't get his message when in fact you knew he called you days ago? You may have told yourself it was just a little white lie—"and I'm talking to him now, so what's the harm?"
2. Have you ever become aware of a compliance violation committed by an associate that could hurt your firm, but you chose not to refer it to authorities? I would add: Would you act quickly to remedy the situation, even if it was difficult or uncomfortable to do so?
3. Have you ever taken credit for bringing in a new client, even though a younger associate created the opportunity? Your rationalization might have been "Well, they have years to make a name for themselves..."
4. Have you ever accepted a new client who chose you on the basis of a strong referral, but you knew you did not have the depth of experience to serve them properly? Were you able to offer top-notch service? Or did you have twinges of guilt and maybe think about calling in a consultant to make up for your lack of expertise?
5. Have you ever had a client tell you he refuses to work with someone in your business because the person is a woman (or a man, or African-American, or Hispanic, or too old, or too young) and you made the change so as not to lose the business? How do you feel about that?

noble character and loftier ideals than we do ourselves. That's why it's so disheartening when someone who has worked hard to get to the top, such as Governor Eliot Spitzer or Senator Larry Craig, is revealed to have feet of clay.

WHY TAKE THE RISK?

What prompts respected individuals to take outrageous risks in their private life and lie about it? Is it contempt for public values? Perhaps it's hubris—the assumption that they are powerful enough to get away with anything.

Dave Drucker, an Albuquerque financial advisor and founder of Drucker Knowledge Systems, reminds me that compartmentalization—the ability to keep separate two contrary sets of attitudes and behaviors—may help explain why powerful people can maintain a high level of moral and ethical behavior in public and simultaneously abandon morality and common sense in areas of their private life.

Interestingly, neurologists are uncovering evidence that power, sex, and risk are hard-wired together, at least in men. The area at the base of the brain that reacts to erotic stimulation also lights up when men take financial risks, according to a recent research by Camelia Kuhnen, a Northwestern University finance professor, and Brian Knutson, a Stanford University psychologist. When this pleasure

center was activated with erotic images, male subjects risked even more money. In another new study, Cambridge University researchers have found a link between higher testosterone levels and more aggressive stock trading. One of the researchers hypothesized in an interview, “If more women and older men were trading, the markets would be more stable.” Professor Kuhnen said her study didn’t use female subjects because it was more difficult finding an erotic image that would appeal to a wide range of women.

But let’s get back to financial planning. In order to understand how to handle clients and colleagues who speak or act dishonestly, I think it’s useful to start by looking inward at our own attitudes, behaviors, and moral judgments about lying, cheating, and stealing.

MY OWN MISLEADING

An experience I had many years ago helped shape my own attitude toward truth-telling. It makes me wince a bit to relate it, but it taught me a painful lesson that you may find of value as well.

I have always loved being interviewed on radio and television, and thought it would be wonderful to be paid for this “work” that I enjoyed so much. So when a company arranged for me to be on a TV talk show, I jumped at the chance to be paid as a representative for their products, which I honestly believed in and used myself. Of course, the fact that I was being sponsored was not to be mentioned. The interview went so well that it turned into a second appearance on the show. Both times I mentioned the name of my sponsor. Alas, I overdid it: the host commented on my enthusiasm and asked if I owned stock in the company.

Hot with humiliation, I answered, “No, it’s just enhanced my life and the lives of my clients,” a literal truth that didn’t address the spirit of the question. Two weeks of emotional and moral agony ensued, while I waited to see if this confrontation would be edited out of my appearance on the show. Horrors! The segment aired with my moment of discomfiture kept in. My sponsor was delighted that its name was repeated so often, but I vowed that I would never again let myself sail under false colors. The deeper lesson I learned, with a fair amount of shame, was that I—who considered myself someone who would never sell out for money—had done precisely that. As a result, I gained more compassion for others in the same boat. I no longer consider myself to be above them. And as far as I am aware, I have never sold out like that again.

TAKING YOUR MORAL INVENTORY

Spend a few minutes thinking about your own life experiences. Do you have any memories about lying, cheating, or

stealing? Adolescent shoplifting? Cheating on a test? Lying and getting caught—or getting away with it?

If you’re beating yourself up for having been dishonest, rest assured that you’re far from alone. That doesn’t make it okay, of course, but it doesn’t make you an ax murderer either. What’s important is being honest with yourself about what you do or have done. If you haven’t acted in accordance with your values and your integrity, be aware of what you’ve been telling yourself to justify it. This greater self-awareness may help you listen to others who have similarly lapsed without either condemning them or making light of their transgression.

Once you’ve completed this moral inventory, ask yourself if there are certain kinds of clients and behaviors that you just won’t tolerate in your practice. Where do you draw the line, and why?

Rich Colman, a financial advisor and partner at Colman Knight Advisory Group, Carlisle, Massachusetts, told me about a client who had taken what he should have paid in estimated tax and squirreled it away to pay for a potentially costly divorce. To evade the tax issue, he lied about his actual income for the quarter. Just as Rich’s firm was about to file his tax return, he came clean with the real amount. When Rich asked why he hadn’t told the truth sooner, the client confessed, “I was scared to tell

Dealing with an inveterate liar

Thankfully, there aren’t many people in our midst who are able to act dishonestly and destructively without guilt or remorse. Research on these truly disturbed individuals shows that traditional therapy methods fail with them.

As a former psychotherapist, Larry Moskat has a view of persistent liars that is more optimistic than most. Now a Scottsdale, Arizona, financial planner, he writes: “Dealing with the chronic liar/cheater, I believe, requires a more gentle touch and an acceptance of the person as they are—troubled and insecure—while gently but firmly beginning the process of dislodging their alter-selves and supporting the person underneath whom they loathe. Once trust is established, these people will begin to feel free to talk the truth as they come to learn they will not be penalized for truthfulness and honest self-expression. Self-loathing will eventually give way to a renaissance of self-assurance and self-confidence, rendering the lies unnecessary, undesired, and ultimately extinguished.”

I would add the caveat that a good outcome probably depends on the degree of dishonesty, as well as the person’s ability to experience true remorse and regret for his or her actions and their effect on others. Advisors without the training or inclination to deal with such a troubled personality may do better to back away, as Keith Newcomb suggests. Newcomb, a financial planner and wealth manager at Full Life Financial in Nashville, Tennessee, told me, “One thing I’ve learned as I’ve gotten older is that, for me anyway, the key to dealing with a chronic liar or habitual cheat is simply don’t deal with them. One certainly cannot change them. If you must deal with them, plan for all the contingencies ‘cause you never know what they’re going to come up with.”

This may be the wisest course of action when you encounter clients or colleagues who lie as a way of life. New brain studies offer hope that science can actually begin to alter the brain function and chemistry of psychopathic liars. But until research identifies a successful avenue of treatment for people who lack an appropriate sense of remorse and responsibility, it may be too dangerous for you to deal with them at all.

you.” Had Rich reacted with disapproval or censure, the client said, it would have made him too afraid to continue the relationship. By being receptive and judgmental, Rich was able to not only preserve but strengthen the client connection.

WHEN CLIENTS LIE TO EACH OTHER

Sometime clients will go to great lengths to keep the truth from a spouse or partner. At Colman’s previous firm, he heard that a client had taken it upon himself to put all his retirement assets in an annuity. When the client’s advisor pointed out that the annuity fees would add up to hundreds of thousands of dollars, the client fired the firm so his wife wouldn’t find out what he had done. The advisor couldn’t keep mum, however, because of a fiduciary responsibility to the wife. The husband ended up hiring a lawyer to order the advisor not to talk to the wife. As Sir Walter Scott wrote, “Oh, what a tangled web we weave, when first we practice to deceive!”

Debra L. Morrison, a wealth manager with Capital Financial Advisors in Lincoln Park, New Jersey, had an opportunity to help rescue a marriage from a similarly devastating revelation. When she asked a client couple to bring in all their financial account information, the husband’s documents included a business credit card statement with a balance of more than \$45,000. When this was brought out, the wife said, thunderstruck, “We have WHAT amount of debt?” She had never known he had this card, since the billing went to his office.

After hearing both of them out, Morrison was quick to explain to the couple that this was more of a marriage and trust issue than a financial problem. She assured them that with the healthy cash flow from the husband’s medical practice, they could eradicate the credit card balance with regular monthly payments. However, she added, the husband needed to own up to his money avoidance tendencies and his readiness to use this card for lunches with his associates and dinners with his wife. He agreed to cut up the card and have financial statements sent to his home address from then on. In addition, Morrison strongly recommended that the couple seek professional help to deal with this breach of confidence.

“As I locked the office door that night,” she says, “I recall lamenting that I didn’t have a psychology degree, but absent that, I did have empathy and keen communication and negotiation skills. So I did the best I could, and they were able to drive away in the same car.” Both spouses were badly shaken, but Morrison felt hopeful that their marriage would be able to sustain the blow.

Subsequently, the two clients met with her quarterly to update her on their progress in regaining their financial and emotional footing. The husband developed a business plan specifying the monthly caseload he needed in order to support their lifestyle and save for retirement. As the couple talked through their past limitations around money, he was relieved to shed his avoider mantle. In the meantime, his wife was able to get past her shock and humiliation to empathize with his plight



and become a fuller partner in tracking their money. “It could have turned out to be a marriage-killer with people less determined,” Morrison told me, “but it was merely a stern warning in this case. They ultimately were able to trust their mutual love, and understand the deep consequences of one partner’s avoidance and the other’s lack of involvement around money issues.” With her expert and compassionate help, they succeeded in weathering the crisis. Today, she says, they are far stronger as a couple, and far wealthier because of the partnership that developed after this crisis of information withholding.

Persuading clients like these of your honesty and true dedication to their interests is a difficult but crucial part of building a relationship. If you hear them out and try sincerely to understand their fears and concerns, they will be more inclined to open up and trust you with their inmost secrets. Then you can help them create a better foundation of sharing power and information with one another.

HOW CAN YOU SPOT A LIAR?

I’m such a gullible and trusting sort, I shouldn’t even try to answer this question. People have attempted to devise ways to spot liars ever since humans learned to communicate, but as far as I know, no system is foolproof. As an article in *The Wall Street Journal* recently noted, people can even fool polygraph machines if they’re cold-blooded enough.

It’s true that body language can give you clues to a person’s directness and honesty, but there are plenty of men as honest as the day is long who find it hard to make eye contact. And, of course, lots of con men are able to look you straight in the eye. All you can do is listen to a person’s facts and their feelings, and try to make the most intelligent judgment about whether you’re getting the whole story. If you’re wrong and you’ve somehow been taken in, be exceedingly gentle and forgiving toward yourself.

Remember that virtually everyone has money secrets, along with feelings of guilt, shame, anxiety, and remorse about money actions that they have or haven’t taken. Though I advocate being accepting and non-judgmental with the normal range of human foibles, it’s important to create clear limits on the degree of lying, manipulation, cheating (or any kind of stealing, I think) that you will tolerate in your clients or colleagues.

SOME RULES OF THUMB

While I think we each need to clarify our own views on the subject of lying, I have developed some guidelines for myself that may help you decide what you do or don’t want to practice.

1. Be humble. Understand your own values, limits, and imperfections regarding lies by commission or omission. Avoid a “holier than thou” attitude when dealing with the sort of untruthfulness that you yourself were once guilty of.

2. Be compassionate. Empathize with people’s tendency to show themselves in the best light, hide from conflict, avoid responsibility

for their faults, and conceal money secrets, even from themselves. Help clients face the truth, but with gentleness and compassion.

3. Weigh in on the side of kindness. Little white lies are in many cases not only fine, but preferable to hurtful truth-telling. If an acquaintance you don't care for asks, "Do you dislike me?" I don't think you're morally obligated to tell the truth. On the other hand, if something is jeopardizing a friendship that deeply matters to you, I would risk creating temporary distress by speaking up in a sensitive but honest way.

4. Let clients know you expect honesty. In one of the first few sessions with a new client, consider asking, "Most of us keep some money secrets, even from ourselves. Is there anything you might be afraid to tell me that would help me understand your complete financial situation, or what you want to achieve?"

5. Make a safe place for people to open up. When otherwise decent clients lie to you or hide important information, find out why they felt it wasn't safe to discuss the truth with you. If something in your approach made them wary of being honest, make every effort to change that attitude or behavior to encourage more self-revelation. However, if you sense that you're dealing with someone who can't or won't stop lying, terminate the relationship for your own good. (See "Dealing with an inveterate liar" sidebar, p. 104.)

6. Don't let greed corrupt your integrity. If you ever find yourself fudging the truth or withholding information to protect your own interest, bite the bullet and 'fess up. Anytime I feel out of my depth with clients who consult me for coaching or therapy, I admit it right off the bat and try to steer them to

someone who will serve them better.

7. Don't turn a blind eye to wrongdoing. If someone at your workplace is breaking the law or violating compliance regulations, you are legally and morally bound to try to stop it. No truly ethical person should ignore this just to avoid the stress of making waves.

8. Truth can be a weapon; use it with care. If a client's financial situation has worsened significantly, of course you have a responsibility to tell the truth. But when there's a good chance that hitting them with it all at once will cause them to panic, I believe it's better to unveil the truth gradually (during two or three closely timed visits, for example), determining action steps along the way, so they can integrate the information and respond more sensibly.

In summary, if I lie to myself, I believe I have a responsibility to confront this behavior for the sake of continued self-awareness and growth. If I lie to others, I need to look honestly at my motivations and what they cost, and seek the courage to tell the truth, not harshly or cruelly but in a humane way.

Michael Shapiro, a Washington, D.C., business law professor (and my husband), tells me that the Buddha is said to have broken all moral precepts except one: he always told the truth. An interesting and complicated business, isn't it? **IA**

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